Market Commentary

PORTLAND INVESTMENT COUNSEL™

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News Highlights on Current Holdings

Financial Services Companies

Australia & New Zealand Bank : Malaysia's prime minister, Najib Razak, has reportedly said he is open to allowing ANZ to increase its stake in Malaysian bank AmBank Group above the 30% foreign ownership cap to 49%. ANZ currently has a 24% stake in AmBank.

Bank of America first investor's conference since 2007, Brian Moynihan predicted pretax earnings of $35-$40bn as its seven divisions return to "business as usual." He added that Bank of America's acquisition spree was coming to an end and the firm would finish the Merrill Lynch integration this year. Target dividend payout ratio of 30% and the rest of excess capital to be used for share-buybacks or special dividends. Large costs still an issue as they continue to deal with mortgages. Target return on tangible equity of at least 15%.

Barclays is planning to shut down more than 100 branches in Spain, where it currently has nearly 590, and will lay off about 700 employees, or 17% of its Spanish work force, reports Expansion in its Tuesday Internet edition. These measures, expected to be announced this week, fall within Barclay's broader plan to cut costs globally and explore new markets, the paper adds.

ING says a "strong recovery of the banking business in 2010" has enabled it to accelerate its repayment plans. ING is to buyback €2bn of State securities. It will buy them back ahead of next coupon reset date on 13th May and will pay a 50% repurchase premium so €3bn total payment. Core Tier 1 ratio would stay above 8.5% and subject to ongoing strong capital generation would seek to buy back the remaining €3bn Core Tier 1 securities by May 2012 – all funded from retained earnings. This payback is earlier than originally thought likely There was no reference to progress with the split of the insurance business, as being a constraint…. which in our view is a positive in that the business is being enabled to recover without being forced to sell its insurance assets too early – so being beneficial to shareholders. Speculation last week (admittedly NY Post) that ING will sell ING Direct US for $10bn. This was one of the conditions of the State bailout. We believe that this condition could well be overturned by appeal however if they were to get $10bn for the business then this would be a clear positive, apparently discussions in recent months have been held with Citigroup Inc., CIT Group Inc. and Chrysler Financial Corp (source Bloomberg).

JPMorgan Chase is apparently considering capping debit card transactions at $50 or $100, to combat new swipe fee rules under the Durbin Amendment.

National Australia Bank has foreshadowed a greater push into Asia after signing a memorandum of understanding with China Huarong Asset Management Company where it can explore opportunities in wealth, insurance, agricultural finance and resources.

Prudential: very strong results. Net income more than doubled year on year at £1.4bn and was 30% above consensus expectations. New business value growth was up 25% with solid results in Asia and the US (+24% and +15% respectively) and an exceptional performance from the UK (up 59%) though this was largely due to a bulk annuity buy-in agreement. Cash generation has shown clear signs of progress. Asia remitted £233m of capital to the Group, up from £40m in 2009 and not far short of its 2013 target of £300m. UK cash remittances were £420m (still well above the £350m target) while US remittances doubled to £80m (though are still some way below the £200m target). The dividend was increased by 20% to 20.85p and Economic Value increased to 715p. Given the unique growth profile we continue to view this as a core holding.

Schroders: 2010 Full Year results. Strong beat, top end of EPS and profit expectations as well as on the dividend. Actuals: Revenues £1071m, PBT £406.9m, EPS 111.8p, DPS 37p (compared to consensus estimates of PBT £383m, EPS 98.7p and DPS 34.3p.) Performance fee element driving the profit beat. AUM of £196.7bn with net inflows of £27bn.

Wells Fargo plans to hire more than 1,000 people for its retail banking operations in the mid-Atlantic region, ahead of a planned fall rebranding of its Wachovia locations. This follows JPM's announced plans to expand in retail banking last month, saying they planned to add 1,000 branches in the next three years, focusing in California and Florida.

Australian Banking : At least eight foreign banks are in the process of applying for an Australian banking licence, including Spain's biggest bank, Santander, and large Asian financial institutions from India and China. The jump in applications reflects attempts to cash in on Australia's trade links to Asia, a strong resource based economy, high immigrant population and sound regulations.

Financial Infrastructure

Australian Stock Exchange ASX / Singapore Stock Exchange SGX - Australian independent MP, Rob Oakeshott, who is one of the key voters for the deal to gained approval has announced his support for the proposed ASX-SGX deal. Singapore Exchange chief executive Magnus Bocker has lobbied dozens of Australian mining chiefs in Perth in an attempt to promote the deal for companies that want to expand by seeking access to fresh sources of capital. SGX has submitted its application to the FIRB last week. Elsewhere, Taiwan bourse was recently reported to be beefing up its efforts to woo Japanese listings which will intensify competition further for SGX.

Dividend Paying Companies

Carnival Corp. – made its first quarter of 2011 earnings announcement, which was broadly in line with consensus, at $0.19/share. Full details of the first quarter operations are to be provided during the company's regular scheduled earnings release on March 22. The company revised its full year earnings guidance to account for the impact of the sustained high fuel costs. The headwind is expected to be about $0.40/share, bringing the full year earnings to $2.50-$2.60/share, a conservative adjustment, in our opinion. The consensus expectations where sitting at $2.94/share before the announcement, towards the lower end of the company's previous (December) 2011 full year guidance. Unlike some of its competitors, Carnival Corporation does not hedge its fuel cost for its cruise business.

GEA Group – GEA Group published its full year 2010 results, showing robust order growth of 12% to €4.6bn as well as improved profitability, with the earnings before interest and tax (EBIT) margin moving 50bps higher to 8.1%. The company also revealed good orders momentum, with order intake in February 23% higher in year on year terms, comparable to last year's Q4 24% growth. Order intake has been particularly strong in the Mechanical Equipment and the Process Engineering divisions, which benefit from higher margin, thus improving the revenue mix of the company. Going forward, for 2011 the company expects organic revenue and order intake growth of at least 5%, as well as revenue growth in 2012. By 2012 the company expects that all restructuring measures will have taken place. For 2011 GEA expects an improvement in the EBIT margin, to 9%. The company sees and encouraging level of investment in the food industry, a key client base, as well as continued recovery in the energy sector. Showing confidence in the business environment going forward, the company increased its dividend to €0.40/share from €0.30/share.

Nestle – We met with the company's CFO, Mr. James Singh, in Toronto last week, as well as with the company's Canadian management, an received an up-date on the company operations, in particular related to revenue progression and increased commodity pressures, as well as a better view on the company's strategic options, with a focus on the deployment of the cash resulted in the Alcon divestiture. The company puts a lot on emphasis on growth in emerging markets and has boosted production and research capabilities in key developing countries; capital expenditure in emerging markets is set to grow to CHF2.5bn from CHF1.9bn. Longer term plans involve spending some CHF2bn in India over the next 8 years, CHF1bn in Africa over the next 3 years and CHF1bn in Mexico over the next 3 years. Another area of focus is nutrition, where Nestle is a known leader in cognitive health, sodium reduction, weight management, portion control, etc. The company does not see an acquisition in the nutrition area as necessary at this point in time. Expansion is continuing in the key growing category of Nespresso, with the follow-up platform, Dolce Gusto. The company has been trying to manage the recent soft commodities' price volatility through key supplier partnerships and partial hedging. Exposure to commodities' price swings is somewhat limited, given the scope of the company's operations. Out of the roughly CHF30bn input costs, agricultural inputs represent only about CHF10bn, of which 4.5bn is dairy product, mostly contracted directly and not traded. Capital allocation will give priority to organic growth, where higher investment is expected in the near future, acquisitions and funding of the dividend. Share buy-back programs are optional.

Toyota – Following the unprecedented earthquake in Japan, at the end of last week, Toyota Motor announced it plans to suspend production at least until March 16. The planned production stoppage is expected to curtail output by about 40,000 units. The company manufactures roughly 40% of its cars in Japan.

Economic Activity, Consumer and Business Conditions

US – A string of relatively good news on the employment front in US was interrupted last week by the initial jobless claims, which came in 26,000 higher from the previous week's level of 371,000, revised higher in turn from the initially announced 368,000 level. Given the bleak employment development, it comes as little surprise that the Consumer Sentiment, as measured by the University of Michigan, dropped to 68.2 in March, from February's 77.5 level, as a result of a pull back in the current conditions measurement, down 83.6 compared to previous month's 86.9, but mostly as the expectations component fell to 58.3 in March from 71.6 in February. While such poor consumer readings are an indication of potential weak performance in the retail sales, the current retail number where rather robust, with a 1% increase in February, one of the highest rates of growth in recent months. Even when controlling for the vehicle sales, the core performance was strong, up 0.7% month on month.

The US international trade deficit widened to $46.3bn in January from $40.3bn in December, as the growth in exports was outpaced by an even stronger growth in imports in the month, with oil imports being a key contributor to this rise, but not the only one.

Canada - Canada's visible (goods) trade balance deteriorated throughout the recent recession, as the Canadian dollar strengthened significantly in trade weighted terms. December reading at around $2bn surplus seemed to reverse the trend, yet the January surplus of only $116mm announced today clearly indicates we're not out of the woods yet... The visible trade balance has a significant impact to Canada's Balance of Payments and has been a key contributor for the last decade, bringing in, on average, about 4$bn a month.

January's building permits in Canada moved lower by 5.1%, compared to an increase of 2.6% in December, signalling a slow-down in construction activity going forward. The housing starts were actually higher in February, to 181,900 units annual rate, compared to the 170,600 units annual rate value in January.

Canada added only 15,100 jobs in February, compared to 69,200 job additions in February, the job additions being supported mainly by part-time positions and job increases in the public sector. The Canadian unemployment rate held steady at 7.8% in February. Meanwhile, the capacity utilization in the fourth quarter of the last year inched higher to 76.4% from the revised figure of 76.2% in the third quarter.

Financial Conditions

Greece: The Greek government has rounded on Moody's after the agency slashed Greece's credit rating by three notches to "highly speculative" status, highlighting a growing risk that the country will have to restructure its public debt. The Greek finance said the downgrade was "completely unjustified". The credit rating agency cut its rating for Greek government bonds from Ba1 to B1, with a negative outlook.

Policymakers continue to accommodate a recovery in bank profits, albeit less than 6 months ago. The U.S. 2 year/10 year treasury spread is 2.78% and the U.K.'s 2 year/10 year treasury spread is 2.36% - enabling financial services companies' assets booked at these levels, to be profitable.

Our concerns are mostly focused around the later cycle issues facing financial services companies – particularly commercial real estate and unsecured consumer loans/credit card loans. However, commercial real estate exposure is more acutely held by US, Spanish and German regional banks (as identified in the European stress tests) – rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow (26 in 2011) compared to 157 in 2010 which was the highest annual tally since 1992 (140 in 2009). This supports our view that franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. Typically banks acquiring collapsed bank franchises from the Federal Deposit Insurance Corporation (FDIC) are paying little or no premium for deposits, assets are purchased at a discount and are covered by loss sharing agreements – so that such deals can be expected to be immediately accretive to earnings per share. The FDIC changed the loss share arrangement on assisted deals from absorbing 95% of losses down to absorbing 80% although this is still attractive to acquiring banks it does probably lower the Internal Rate of Return.

The U.S. 30 year mortgage market has remained low at 4.88% - (the lowest rate since the Federal Reserve began tracking rates in 1971 was 4.17% on Nov. 11, 2010), as the Federal Reserve effectively continues to seek to incentivise home ownership. Existing U.S. housing inventory has increased to 7.6 months supply of existing houses – much higher than what we believe is a more normal range of 4-6 months. We believe it remains premature to consider a recovery in house prices a measure of stability from which to build is welcomed…. particularly for those financial services companies holding such assets in their portfolios.

A concern which remains is the extent to which mortgage foreclosures have been properly documented, thereby enabling mortgages to be "put back" to the originating bank. However, from recent bank investor relations presentations it does seem the rate of "put backs" are now expected to decline, suggesting current levels of provisions should suffice. For the larger franchises the quantum of proactive provisioning continues to act as a differentiator of quality which we believe has still to be fully appreciated.

The VIX (volatility index) is 20.08 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

We believe the next few years will highlight the growing polarization between strong and weak institutions. Companies that have capital strength will buy assets from those required to divest. Companies that have a strong presence in emerging markets will likely grow quicker than those that do not. Banks that have strong retail deposit franchises will take market share from those that rely on wholesale markets to fund loan growth at attractive margins. We believe the Funds we manage are extremely well positioned to benefit from the strength of their portfolios of strong, dominant, attractively priced financial services companies.

Closed-End Funds

Spreads on the closed-end funds are narrowing but remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel Inc. 2009 Closed End Annual Reports are now available on the web site. Below you can find the link to access the closed end annual report.

http://www.portlandic.com/Info.aspx?disp=Financial_Reports

At the close of business on Fridays and at the end of each month we publish the Net Asset Values (NAV) of our funds onto our Portland website at http://www.portlandic.com/Funds/WeeklyPricing.aspx. The NAV for the AIC Global Financial Split Corp. can be found on the AIC/Manulife website at http://www.aic.com/EN/PricePerformance/AICClosedEndFunds/Pages/Price.aspx and the Copernican World Financial Infrastructure Trust, Copernican World Banks Split Inc. and the Copernican International Financial Split Corp. can be found on the Copernican website at http://www.copernicancapital.com/Funds/WeeklyPricing.aspx.

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Sources: (Macquarie Securities) - Global Financials Daily (SCR, SWEDA, GREECE, OML, TOP, TLPR, PRU, OMEGA, BARC, PFG, EMG, MF, WF, PBOC, SINOPAC, SGX, Indian banks) (email dated March 8, 2011)

(Macquarie Securities) - Global Financials Daily (MUV2, CGL, SL/LN, FCAM, Korea Brokerages, Fubon, Taishin, ICE, India Banks, Wing Hang) – email dated March 10, 2011